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DISSEMINATION CONTROL ABBREVIATIONS

NOFORN-	Not Releasable to Foreign Nationals
NOCONTRACT-	Not Releasable to Contractors or Contractor/Consultants
PROPIN-	Caution-Proprietary Information Involved
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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE
21 October 1983

Brazil: Figueiredo's Government Struggling (b)(3)

Summary

The Figueiredo administration has been discredited by its recent handling of the economy and seems unable to halt the decline of its political fortunes. Buffeted by intractable economic problems, the government also is suffering the consequences of (b)(1) (b)(3)
Brasilia is confronting not only mounting public resistance to austerity and an assertive opposition but also a dissident wing within its own party. There are some indications of restiveness within the military, although the high command remains loyal to Figueiredo and the possibility of a coup seems remote unless there is a rapid and widespread deterioration of public order. (b)(3)

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his small coterie of military and civilian advisers will continue to wield significant power, (b)(1)
following policies similar to those of the last few months and likely with (b)(3)
mixed results at best. The economic crisis will not soon improve, and the dismantling of the authoritarian political system in preparation for a return to civilian rule in 1985 has left Brasilia without the legal means of quelling dissent and forcing its programs through the increasingly independent Congress. Even if Figueiredo resumes a more active role--as may be signaled by recent initiatives vis-a-vis the Congress and opposition leaders--we believe he is not likely to regain control over the political process. The government probably will continue pushing for austerity while trying to deflect criticism, but growing unrest will heighten pressures for significant changes in policy and leadership. Although we do not foresee a major political crisis over the near term, the administration will be forced to make additional concessions and ultimately may have to consider more drastic

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This memorandum was requested by the National Security Council. It was prepared by *South America Division, Office of African and Latin American Analysis, and was coordinated with the Directorate of Operations. It contains information available as of 21 October 1983. Questions and comments may be directed to the Chief, South America Division, ALA,* (b)(3)

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measures--such as Figueiredo's resignation, direct presidential elections, or a formal debt moratorium. (b)(3)

On the debt question, the Brazilian Congress is challenging the administration's wage-restraint policy, a key element of the austerity program. In our view, the government ultimately will succeed in negotiating a compromise with Congress, but at the cost of further delaying loan disbursements necessary to contain foreign payments arrears and to avoid risks of major debt default actions. Even if the immediate wage hurdle is surmounted, we foresee continuing difficulties in balancing financial imperatives against political pressures over the next year. As a result, we believe Brazilian policymakers will view declaring a moratorium on foreign debt payments as an increasingly viable tactical option. (b)(3)

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Figueiredo's Leadership in Question (b)(1)
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(b)(3) Figueiredo dislikes politicians and disdains political horsetrading. Although his commitment to abertura--or political liberalization--made him the most popular of Brazil's military presidents when he took office in 1979, (b)(1)
he has relied almost (b)(3)
exclusively on a corps of close advisers to make and implement decisions. His refusal to dismiss Planning Minister Delfim--whom most Brazilians blame for the country's economic woes--apparently stems, at least in part, from an unwillingness to bow to pressure.

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Government Losing Initiative

The administration is feeling the brunt of rising public discontent and social unrest. Labor, the middle class, and the business community have joined the opposition parties in condemning the government's austerity program. Some in these groups are suggesting Figueiredo resign, and a national poll conducted last month gave him the lowest popularity rating ever registered in Brazil. Lower-class discontent is being manifested in lootings, with over 200 supermarkets ransacked in September. (b)(3)

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the spread of looting to Sao Paulo and the increase in such episodes in the drought-ridden Northeast are sure signs the economic crisis will generate more unrest. (b)(3)

Divisions within the ruling party are contributing to the government's dilemma. Dissidents captured some 35 percent of the seats on the party's national directorate in elections last June, and the administration has been unable to maintain party discipline on the wage-law issue before Congress. Moreover, Figueiredo seems powerless to impose his choice for president. Congressman Maluf, whom Figueiredo detests, is far ahead in the race for the party's nomination. According to Embassy reporting, some government officials are speculating that the President may remove himself from the succession process. (b)(3)

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The continuing erosion of the administration's influence is reflected in its miscalculation of Congressional opposition to the wage-restraint policy required by the IMF as a condition for resuming disbursements of the rescue package. In recent weeks the Chamber of Deputies has twice repealed decrees limiting wage hikes--the first defeats of government-sponsored bills since the military seized power in 1964. Figueiredo's public call for a compromise last month acknowledged the legislature's new role in decisionmaking, but the opposition so far has spurned this overture, at least openly. (b)(3)

Government party leaders are continuing negotiations to obtain the opposition parties' acceptance of a substitute decree-law enacted on 20 October. This measure would shift more of the burden of austerity to high-income groups by introducing a sliding scale of wage hikes, with the lowest-paid workers receiving increases at 100 percent of inflation. The law also provides for tax reforms and a phase-in of collective bargaining to replace government regulation of wages. The administration hopes these concessions will win middle class, labor, and opposition party acquiescence in the austerity program. (b)(3)

We believe the Figueiredo administration's new tactic of combining a broader compromise with a more judicious use of political muscle stands a reasonably good chance of ultimately gaining political acceptance for an austerity package in line with the recent IMF accord, but protracted negotiations would likely delay the restoration of loan payments. The US Embassy reports that the complexity of the ruling party's proposal makes passage unlikely this month or even next. As a compromise is mediated, however, foreign creditors will remain uncertain about the government's ability to obtain backing for the legislation. (b)(3)

Prospects

If Figueiredo remains indecisive, day-to-day decisionmaking will center in the hands of five or six military and civilian advisers. Without an authoritative mediator, the administration is likely to continue floundering, further eroding public confidence. (b)(3)

There is, however, little likelihood the military will intervene directly unless the security situation deteriorates

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sharply. During his term Figueiredo has purged most hardliners from the upper ranks, and the high command is composed of moderates loyal to the President and committed to a return to civilian rule. Nonetheless, the officer corps is unlikely to tolerate another 18 months of governmental inactivity, and Figueiredo's his military advisers may urge him to resign. (b)(1) (b)(3) (b)(3)

Even if the President shakes off his lethargy and reasserts himself, we believe he could not regain his former control over the political process. The loosening of authoritarian measures over the past few years has deprived the government of the legal means to suppress dissent and impose its programs. Ultimately, the military could halt the transition to civilian rule, and it is the implicit threat of such action that may restrain the opposition to some extent. (b)(3)

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Over the near term, Brasilia probably will continue to muddle through, trying to balance the economic need for belt-tightening against the political demands for an easing of the austerity program. The likely delay in the government's efforts to pass new compromise economic legislation will further stretch the limits of Brazil's already tenuous foreign exchange position. many international bankers will not consider resumption of lending until an IMF accord is consummated. This will impair Brasilia's ability to obtain not only the $16.5 billion in financial commitments lined up to meet the foreign financing gap through 1984 but also critically needed bridge loans. Without imminent restoration of foreign credits, the country's imports will be squeezed harder, thereby further crippling agricultural and industrial production. Brasilia will be forced to allow its foreign payments arrears to rise considerably above its current $2.5 to $3.0 billion levels, previously thought intolerable by foreign bankers. Importantly, numerous outstanding US bank loans would likely have to be placed in a non-performing status at year's end, and we believe the risks of a default declaration would escalate. (b)(1) (b)(3) (b)(3) (b)(3)

Even presuming Brasilia successfully hurdles the challenge of working out a new economic bill with the Congress, we foresee continuing difficulties in implementing austerity. Although the government will strive to keep the IMF program on track and

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maintain workable relations with foreign creditors, it will be hardpressed to withstand building domestic pressures for modifications to any program. Moreover, a continuing decline in economic activity would risk an increase in already high unemployment and, consequently, burgeoning social unrest.

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A cycle of spreading disorder and growing political opposition from the middle class and labor will intensify interest among Brazilian policymakers in declaring a moratorium on foreign debt payments. (b)(1)

already the foreign-exchange controls inaugurated in late July have slowed or reduced hard-currency usage for everything except oil purchases. According to press reports, some bankers believe Brasilia may be building up its foreign-exchange and oil reserves--at the expense of permitting foreign arrears to mount to $3 billion--in the event it is forced to declare a moratorium on interest payments. (b)(3) (b)(3)

Initially, Brasilia might contemplate a temporary moratorium--perhaps 90 days--aimed at pressuring foreign banks to accept a more generous long-term restructuring of Brazil's debt. A moratorium of this sort, however, would be a gamble for the government and could well result in stalemated negotiations. In this event, trade credits probably would contract and economic activity would plummet. Nonetheless, despite the risks, Brasilia might see this nationalist option as a means of deflecting public resentment and creating a new political consensus to shore up the government's eroding legitimacy. (b)(3)

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